

Message Text

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ACTION EB-04

INFO OCT-01 SS-04 NSC-04 NSCE-00 TRSE-00 FRB-03 INR-01

CIEP-01 CIAE-00 ISO-00 DRC-01 RSC-01 /020 W

----- 020772

R 091517Z AUG 74

FM AMEMBASSY BONN

TO SECSTATE WASHDC 4315

C O N F I D E N T I A L SECTION 01 OF 02 BONN 12603

LIMDIS GREENBACK

PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: GDS

TAGS: EFIN, GW

SUBJECT: BUNDESBANK VIEWS ON INTERNATIONAL MONETARY
QUESTIONS

1. SUMMARY. BUNDESBANK VICE PRESIDENT EMMINGER
HAS REVERSED HIS PREVIOUS POSITION AND NOW FAVORS THE
TAKING UP BY THE EC OF A JOINTLY GUARANTEED LOAN IN
ORDER TO HELP FINANCE BALANCE OF PAYMENTS DEFICITS
OF MEMBER COUNTRIES. END SUMMARY.

2. BUNDESBANK VICE PRESIDENT EMMINGER TOLD THE
FINANCIAL ATTACHE DURING A CONVERSATION THIS WEEK
THAT HE STRONGLY SUPPORTS PLANS FOR A JOINT EC LOAN
TO RECYCLE OIL MONEY TO THOSE EC COUNTRIES MOST IN
NEED OF IT. HE FEELS SUCH A JOINTLY GUARANTEED EC
LOAN IDEALLY SHOULD PARTLY TAKE THE FORM OF A
DIRECT PLACEMENT WITH ARAB COUNTRIES AND PARTLY THAT
OF AN ISSUE PLACED WITH BANKS ON THE EURO-MARKET.
HE FEELS IT USEFUL TO PURSUE BOTH METHODS IN ORDER
TO DEVELOP THESE INSTRUMENTS NOW AND GAIN EXPERIENCE
WITH THEM SINCE "NO ONE KNOWS WHAT THE SITUATION WILL
BE LIKE A YEAR FROM NOW AND WHAT THE NEEDS THEN WILL
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BE." EMMINGER FELT, HOWEVER, THAT THE PLANS OF THE

EC COMMISSION FOR A \$5 BILLION ISSUE ARE TOO AMBITIOUS
AND THAT INSTEAD ONE SHOULD START WITH MAYBE \$1 BILLION.
FOR ONE THING, AT THE MOMENT DENMARK AND ITALY ARE THE
ONLY POTENTIAL RECIPIENTS AND THEY WOULD HARDLY WANT
TO TAKE UP \$5 BILLION AT THE INTEREST COSTS INVOLVED
AT THIS TIME.

3. THE FINANCIAL ATTACHE REMINDED EMMINGER THAT THE
ABOVE REPRESENTED AN ALMOST COMPLETE REVERSAL OF HIS
POSITION OF A FEW WEEKS AGO (SEE BONN 10558 OF
JULY 3, 1974). EMMINGER ACKNOWLEDGED THIS AND SAID
HE HAD BEEN PERSUADED TO CHANGE HIS VIEW BY THE
FOLLOWING CONSIDERATIONS:

(A) A SHIFTING OF GERMAN CENTRAL BANK RESERVES
TO OTHER EC COUNTRIES EVEN AGAINST GOLD OR A GOLD
GUARANTY DID NOT REALLY MEET THE PROBLEM OF RECYCLING
SINCE GERMANY WAS NOT IN TURN THE RECIPIENT OF ANY
SIGNIFICANT AMOUNT OF ARAB MONEY. GERMANY ACTUALLY
HAD A BALANCE OF PAYMENTS DEFICIT IN THE LAST
TWO MONTHS DUE TO MONEY OUTFLOWS. EMMINGER MENTIONED
THAT HE THOUGHT IT LIKELY THAT GERMANY WOULD HAVE A
CURRENT ACCOUNT DEFICIT IN THE FIRST HALF OF 1975.

(B) THE LENDING OUT OF GERMAN CENTRAL BANK
RESERVES WAS APPROPRIATE ONLY AS SHORT TERM ASSISTANCE,
BUT NOT AS THE MEDIUM TO LONGER TERM CREDITS THE
AFFECTED EC COUNTRIES NEEDED.

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C O N F I D E N T I A L SECTION 02 OF 02 BONN 12603

LIMDIS GREENBACK

(C) THE PRESSURE TO LEND OUT CENTRAL BANK MONEY AT CONCESSIONAL INTEREST RATES WOULD PROBABLY BE IRRESISTABLE. ARAB MONEY, ON THE OTHER HAND, WOULD BE AVAILABLE ONLY AT COMMERCIAL RATES. AT PRESENT HIGH RATES THIS WOULD BE A VERY SIGNIFICANT INCENTIVE FOR RECIPIENT COUNTRIES TO PUT THEIR HOUSE IN ORDER.

(D) IT WOULD BE USEFUL FOR ALL SIDES TO HAVE SOME DIVERSIFICATION IN THE FLOW OF ARAB MONEY AND NOT TO HAVE IT GO EXCLUSIVELY TO THE US.

4. IN A SEPARATE CONVERSATION, THE BUNDESBANK'S CHIEF ECONOMIST, SCHLESINGER, TOLD THE FINANCIAL ATTACHE THAT HE WAS CONVINCED THAT IN THE MEDIUM RUN THE ARABS COULD NOT BE SUCCESSFUL IN APPROPRIATING 1 - 2 PERCENT OF THE FREE WORLD'S GNP THROUGH OIL SURPLUSES. THE EQUATION SIMPLY WOULD NOT BALANCE AND SOMETHING WOULD HAVE TO GIVE--PROBABLY OIL PRICES. BUT INCREASED SUBSTITUTION, ETC., ALSO COULD HELP. SCHLESINGER, THEREFORE, FEELS THAT IT WOULD BE A MISTAKE TO BASE MEDIUM TERM POLICY CONSIDERATIONS ON THE ASSUMPTION OF CONTINUED ARAB BALANCE OF PAYMENTS SURPLUSES ANYWHERE NEAR THOSE FORECAST FOR 1974 (WHICH MAY BE TOO HIGH EVEN FOR THAT YEAR).

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